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Electric Power Daily

Wednesday, June 22, 2005

Senate approves Hagel provision to boost CO2 technology

With the energy bill's chief sponsor backing away from one climate change mandate, the Senate Tuesday moved forward with a provision to promote technologies to reduce the intensity of greenhouse gases, but is also expected to vote today on an amendment requiring companies to cut actual carbon dioxide emissions.

Seen as an extension of current policies by the Bush administration, the amendment by Sen. Chuck Hagel, R-Neb., and Sen. Mark Pryor, D-Ark., won Senate approval in a 66-29 vote. The Senate then opened debate on an economywide carbon cap amendment by Sen. John McCain, R-Ariz., and Sen. Joe Lieberman, D-Conn. The vote on the amendment is scheduled for today.

A third amendment on climate characterized as the middle ground between those two failed to emerge after Senate Energy and Natural Resources Committee Chairman Pete Domenici, R-N.M., decided against co-sponsoring it with its author

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Hydro One denies report of blackout nearly occurring

Hydro One, Ontario's province-owned transmission and distribution utility, on Tuesday criticized a published report suggesting a May 27 "blip" on Ontario's high-voltage grid could have caused a cascading collapse of the interconnected transmission systems in the northeastern quadrant of North America, similar to the Aug. 14, 2003, blackout.

The report, in Tuesday's *Washington Post*, gave far too much credence to the interpretation of the May 27 blip by Hydro One engineers who are currently on strike against the T&D utility, said Peter Gregg, vice president for corporate communications.

He said that the blip, which "lasted for only a small fraction of second," was caused by a switching mistake by an operator at Ontario's Grid Control Centre, and that the grid's built-in protective systems immediately—and automatically—took needed steps to contain and correct the problem before it worsened.

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Wood urges states to take the lead on demand response

Regional transmission organizations have to date produced the most successful and consistent demand response programs, Federal Energy Regulatory Commission Chairman Pat Wood III said Tuesday.

Now, states should take the lead while organized markets serve as a back-up to increase use of those load management programs, Wood told the U.S. Demand Response Coordinating Committee in what he said was his last policy speech as FERC chairman.

"It would be a lot more efficient and effective if the states handled it first," Wood told reporters after the speech. "If they can't do it or won't do it, then maybe the RTO will."

A demand response case study showed that "over one-third of the customer savings from having organized markets at all would emanate from effective demand participation; that's substantial dollars," Wood said.

The amount of demand response capability and usage is up, but it's of relatively

Generation

FERC upholds sharing reliability costs in congested Northeast

Federal regulators have upheld a decision that spreads the high cost of reliability in Connecticut and Boston among market participants responsible for the costs.

In a decision issued Monday, the Federal Energy Regulatory Commission confirmed its stance that those who create the cost should pay the cost when it comes to real-time Reliability Must Run (RMR) operating reserve charges.

FERC was responding to petitions by PSEG Energy Resources & Trade and the Massachusetts Municipal Wholesale Electric Co. asking FERC to reconsider its approval of a new tariff that ISO New England instituted for the reserve charges on March 1.

Under the new method, utilities or generators are charged based on the number of megawatts they serve on a real-time basis. Under the old tariff, ISO-NE had charged the costs only to generators and utilities that

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Legislation

New EEI Chairman Morris weighs in on Senate energy bill

The Edison Electric Institute Wednesday named American Electric Power Chairman, President and CEO Michael Morris its new chairman for a one-year term. Morris replaces Xcel Energy Chairman and CEO Wayne Brunetti.

During a news conference at EEI's annual conference/expo in Las Vegas, Morris put the chances of the Congress passing a broad energy bill this year at 70%. "If the House has the MTBE [issue] figured out, we're there," he said. Language in the last energy bill providing makers of the gasoline additive with a waiver from product liability lawsuits was widely blamed for the bill's failure in the last Congress.

Morris added that he opposes the addition of climate change language in the energy bill, saying that issue is best addressed separately

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poor quality and is not comparable across all regions, he said. "It needs to be standardized and improved," Wood said. "The best that we have is from the RTO and ISO programs."

Demand response can include real-time pricing, advanced metering, payments for load reduction, energy efficiency and other elements in wholesale and retail markets.

Connecticut is in the process of gaining control over its demand response program from ISO-New England. But, Wood said, the PJM Interconnection's plan to handle demand response programs for that region is also acceptable.

Wood said FERC will soon announce a demand response technical conference called for by FERC commissioners Nora Brownell and Suedeen Kelly after they decided an investigation is needed into the barriers to entry in demand response programs.

Ultimately, it's up to states. "Our jurisdiction is fundamentally wholesale, not retail; demand response is primarily a retail issue," Wood said.

But retail and wholesale regulators will need to work together. "That's what we've done," Wood said, citing several success stories, including the use of demand response by the New York Independent System Operator, ISO-NE and some state programs, such as one in Texas.

BLM releases final wind plan for the West

The Bureau of Land Management released Tuesday a plan it hopes will spur the addition of 3,240 MW of wind-generated power in 11 western states by 2025.

The final version of the programmatic environmental impact statement would see that 52 of the agency's land-use plans in the 11-state area are amended to provide for expedited permitting of wind projects. The majority of the projects would be sited in California and Nevada.

During preparation of the EIS, a draft version of which was released in October 2003, the Dept. of the Interior received much criticism from wind proponents for interim guidelines—put forth by BLM sister agency the Fish and Wildlife Service—set to protect wildlife from harm by wind turbines. Wind proponents said the interim guidelines place onerous restrictions on the industry.

On Tuesday, Interior and BLM officials said that about half those guidelines were transferred to the final EIS in the form of "best management projects" wind developers should follow when siting wind farms. Assistant Interior Secretary for Land and Minerals Management Rebecca Watson also said Tuesday that much of the wind potential in the West is limited by transmission constraints.

FERC staff wants more time in Southern case

Trial staff at the Federal Energy Regulatory Commission has asked chief law judges there to allow more time for discovery before testimony actually begins in a hearing on Southern Company's interchange arrangement.

The hearing, which FERC ordered in April, is to examine allegations that Southern uses its "intercompany interchange contract" to give its Southern Power generation unit a leg up in wholesale markets. It is the first time the commission has looked formally into a utility system's compliance with FERC standards and codes of conduct in relation to the generation-only company, trial staff said.

Not only is it the first time for such a case, and not only is the issue complicated, the staff said, but Southern is continuing to object to the hearing—it has asked FERC to rehear its order—and in doing so is prolonging the data-discovery process. "Trial staff anticipates that it will not receive timely responses to its discovery requests to the Southern

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Companies," the staff said in a motion filed Tuesday (EL05-102).

In April, FERC said the generation-only unit had become more of a merchant unit with complete access to the utility units' resource plans—"something different" from what was intended initially, Chairman Pat Wood III said. The company argues the Southern Power unit is not a merchant and therefore is not subject to commission rules for utilities' merchant affiliates. According to Southern, the unit builds generation only after it has signed long-term contracts for the power.

The new schedule would mean the hearing would start next May instead of next January.

Bush taps Interior lawyer for DOJ post

President Bush intends to nominate Sue Ellen Wooldridge to be assistant attorney general in the Justice Department's environment and natural resources division, the White House said Monday.

Wooldridge currently serves as solicitor at the Interior Department, representing it in various inter-agency negotiations and lawsuits.

Bush made Wooldridge Interior's solicitor in June 2004 through a recess appointment, though the Senate later confirmed her without a fight. Wooldridge previously served as deputy chief of staff and counselor to Interior Secretary Gale Norton, taking that post after working as a private-practice attorney and as general counsel to the non-partisan California Fair Political Practices Committee.

If she wins Senate confirmation as DOJ's top environmental lawyer, Wooldridge would replace Kelly Johnson, who has run the division on an acting basis since its previous chief, Thomas Sansonetti, resigned in April. Among Wooldridge's duties would be to handle a host of controversial Clean Air Act lawsuits that DOJ and the Environmental Protection Agency brought jointly against various coal-fired electricity generators during the Clinton administration.

The Bush administration has continued to prosecute the inherited cases even as it has worked to exempt many coal-fired plants from the Clean Air Act's "new source review" process, which was the focus of the Clinton-era enforcement initiative. Wooldridge also would oversee a lawsuit that DOJ filed on behalf of the Energy Dept. against a Washington state ballot initiative that DOE says would jeopardize its ability to clean up the Hanford reservation and other now-defunct nuclear weapons sites across the country.

California utility initiative qualifies for ballot

A ballot initiative that would formally repeal California's 1996 electric utility deregulation law is to be presented to voters in a special statewide special election on Nov. 8, California Secretary of State Bruce McPherson said Monday.

McPherson said the measure, which is being sponsored by The Utility Reform Network, a consumer advocacy group, has received 417,390 valid signatures of registered state voters, well above the 411,198 needed to qualify.

In addition to returning the state's utilities to a traditional regulated environment, the ballot initiative would require all retail electricity suppliers to obtain at least 20% of their power from renewable resources by 2010, seven years earlier than mandated under current law. Gov. Arnold Schwarzenegger on June 13 announced plans for the special election, in which he hopes to win voter support for several budget-related initiatives.

Although Schwarzenegger has said he supports retail electricity competition, he has taken no position on the ballot question.

Province poised to pick hydro plant finalists

Finalists in the Newfoundland & Labrador government's solicitation for a hydroelectric project of up to 2,824 MW on Labrador's Lower Churchill River will be selected by summer's end, the government said Tuesday.

In January, the government issued a "request for expressions of interest" for the C$3.4 billion (US$2.8 billion) project, and by the March 31 deadline received 25 proposals, of which 10 were carved out for more detailed analysis.

The government declined to identify the respondents, although three entities—Hydro-Quebec, Ontario's provincial government and Montreal-based engineering and construction giant SNC-Lavalin—announced a joint proposal earlier this year.

Construction of the initial 2,000-MW Gull Island phase of the Lower Churchill project could begin in 2006, but no timetable for the commercial startup of that or the 824-MW Muskrat Falls portion of the project is scheduled. The proposal also calls for Hydro-Quebec to build a 1,250-MW transmission interconnection with Ontario, and for Hydro-Quebec to take two-thirds of the Lower Churchill project's output while Ontario takes the rest.

The solicitation finalists will advance to the second phase—a detailed feasibility review, said a spokesman for Newfoundland & Labrador Premier Danny Williams, a strong advocate of the Lower Churchill project. The government said following conclusion of the second phase, negotiations will start with the "proponents of the most viable development concepts."

The spokesman declined to comment on a recently released report on the project by TD Economics, a subsidiary of Toronto-based TD Bank Financial Group, which concludes the emerging market conditions in eastern Canada are "highly supportive" of plans for the project. Most important, TD Economics said, Ontario and Quebec are "two nearby markets that have enjoyed adequate supplies of power historically, [and] are now eager to secure additional electricity sources."

Premier Williams has placed the development of the Lower Churchill project "at the top end of his list of priorities," and Canada's federal government has been stepping up its support for the development of a national east-west grid and new generation sources that would help Canada comply with the greenhouse-gas mandates of the Kyoto Accord, the report said.

New York sets rules on utility ROW staffing

The New York Public Service Commission ruled that utilities must have enough in-house staff to maintain their rights of way. The utilities must provide plans to be approved by the commission (Case No. 04-E-0822).

This case stems from the August 2003 blackout and findings by federal investigators that lax tree trimming was partly responsible for the failure. In 2004, the PSC issued a Notice of Proposed Rulemaking on setting standards for ROW management. The NOPR stated that utilities must maintain "sufficient qualified staff to implement their commission-approved ROW management plans."

Utilities responded that they should be free to use qualified contractors in lieu of in-house staff. They argued that the commission should only establish performance objectives and give the utilities discretion on how to meet them.

In its decision Monday, the PSC agreed that utilities should have the flexibility of using contractors, but added, "Due to the importance of maintaining electric system reliability, however, it is necessary in this instance for the commission to be somewhat prescriptive." Therefore, utilities must maintain a minimum level of in-house personnel, which will be determined when staff reviews their plans.

"A utility cannot solely rely on a contractor to approve specifications or perform supervisory instructions," it said. "Independent oversight must be exercised by utility personnel with sufficient expertise to make competent to … make sure that contractor performance meets utility specifications."

The PSC also addressed the frequency of work, noting that the Federal Energy Regulatory Commission blamed five-year cycles of vegetation management, in part, for the blackout. It called for annual ground patrols and "hot spot" work, and said its staff will determine the lengths of full management cycles. Utilities must conduct one ground and one aerial patrol per year for all bulk transmission facilities. The PSC also wants utilities to widen ROWs where necessary.

The utilities must submit their plans by Sept. 30.

New thinking needed on demand response

Despite support at the federal level, incorporation of demand response into utilities' resource procurement and tariffs has had very limited uptake.

Any change depends upon a new way of thinking within the states, utilities and independent system operators, officials said at a Washington meeting Tuesday.

Because demand response can include real-time pricing, advanced metering, payments for load reduction, energy efficiency and other elements in wholesale and retail markets, it's a concept that "falls through the cracks a lot of times," said Charles Goldman, group leader for the electricity markets and policy group at the Dept. of Energy's Lawrence Berkeley National Laboratory.

Part of the problem is that demand response means different things to different people and there's no clear definition, said Roger Levy, outreach manager with California's Demand Response Research Center. Among the groups aiming to change that is the Demand Response Coordinating Committee, which held the meeting to enhance coordination of federal and state efforts and tout the success of demand response efforts, said Dan Delurey, executive director of the DRCC.

The DRCC was formed last year and includes utilities, regional transmission organizations and others, and although there are clear benefits to demand response initiatives, they don't receive the attention of other segments of the power market, Delurey said.

Speakers emphasized that demand response is something that should be viewed as a strategic resource on par with increasing supply options, rather than just something to be used only in times of crisis. Demand response efforts can reduce wholesale price volatility, provide savings to customers, mitigate the market power of generators and reduce the need for new generation — resulting in environmental improvements, noted Rick Morgan of the District of Columbia Public Service Commission.

But the traditional wisdom about how power is priced and the recovery mechanisms for utilities, which often have to spend money to implement demand response programs, may need to change for demand response efforts to take hold, Morgan said. One element that needs to change is how demand response programs are marketed, because they're often viewed by customers as a hassle rather than as a potential to save money, he said.

Federal officials said the pending energy bill and RTO efforts support increased use of demand response, but state regulators need to do more. "There's only so much that can be done at the federal level," said Kevin Kolevar, director of the Office of Electricity Delivery and Energy Reliability at DOE.

DOE views demand response and related technologies as a big step in enhancing grid reliability because they ease stress on portions of the grid with strained generation or transmission resources, Kolevar said.

While language in the House-approved and current Senate versions of the broad energy bill that would allow consumers to adjust their electricity consumption in response to prices could have been stronger, it is still a "sensible approach" that should be part of any final bill, said Rep. Rick Boucher, D-Va. Boucher said both versions of the bill would give state regulators one year to determine whether they should adopt demand response and advanced metering programs.

If states do opt for such programs, then utilities would be required to offer customers real-time pricing, critical peak pricing or time-of-use rates. "I wish it could have been stronger" and mandated participation, Boucher said, adding that concerns over states' rights made such a goal "not politically achievable."

States need to remember that the ratemaking element is critical to the success of any advanced metering program because "there's no point in having smart meters if you have dumb rates," Morgan said.

Kathleen Hogan, director of the EnergyStar program at the Environmental Protection Agency, said demand response and energy efficiency efforts should be coordinated rather than pursued as different initiatives. Coordination would enable utilities to meet up to 50% of expected load growth without adding new generation, which would spur economic growth in new technologies, she said.

States and federal agencies have had 20 years to focus on energy efficiency, and they are making progress, which makes sense because several hundred million dollars have been spent on research, demand and demonstration of efficiency technologies, Goldman said. Demand response efforts, in contrast, have received about $10 million in similar funding, he said.

Commonwealth Edison in Chicago was supportive of demand response efforts when wholesale power prices skyrocketed for a brief period in the late 1990s, noted Robert Lieberman of the Illinois Commerce Commission. When prices came down utility interest waned, and that's part of the problem with the limited success of demand response efforts, he said.

Rate concerns drove Ohio PUC on Mon Power

Concerns about the impact Monongahela Power's planned switch to market-based electric rates next year would have on an economically depressed area of southeast Ohio drove a state regulatory decision last week to require Mon Power to negotiate the possible transfer of its Ohio service territory to American Electric Power, according to several people involved in the case.

The Public Utilities Commission, in its June 14 order, said Mon Power was the only investor-owned utility in Ohio to ignore the commission's invitation to submit a so-called "rate stabilization" plan for the approximately 29,000 customers in its service area once its market-development period ends Jan. 1, 2006. Instead, Mon Power proposed a competitive bidding process to buy power to serve its customers.

A handful of Mon Power's industrial customers, including ferromanganese producer Eramet Marietta, complained they could be forced to shut down if hit with an anticipated 70% electric rate increase next year if the Allegheny Energy subsidiary switched to market-based rates.

Such a rate hike, said Bob Flygar, Eramet manager of commercial and site services, would cost the Marietta plant an additional $15 million annually.

Other industrials worried about the impending rate increase include Kraton Polymers, Nova Chemical and Energizer. "The larger industrial customers took the initiative to bring this issue to the attention of other folks," Columbus, Ohio, industrial attorney Samuel Randazzo said in a Tuesday interview.

Mon Power's area in Ohio includes a portion of Appalachia, and the economy there "is not as robust as we would like," said Randazzo.

The industrials found an attentive audience. Then, the scene shifted to state legislators who began lobbying for relief for their constituents.

Finally, the PUC got involved, leading to what another official described as a "political solution."

Observed David Boehm, a Cincinnati industrial attorney, "It sounds to me like a deal was made."

Janine Migden-Ostrander, the state's Consumers Counsel and normally a strong supporter of competitive bidding processes, is not opposing AEP's possible purchase of Mon Power's service territory. Her job as a consumer advocate, she said, is to "get the lowest rates possible for customers."

Columbus-based AEP, the nation's largest electric generator, has insisted it did not suggest the service territory transfer. However, several officials said AEP was approached well in advance of the PUC's order and asked if it was willing to negotiate with Mon Power.

Randazzo stressed industrials and other Mon Power customers are not out of the woods yet. There's no guarantee, he noted, "that AEP will not ask for the same thing that Mon Power has … we're looking forward to seeing the details."

Price break needed to spur retail shopping

Customers in Massachusetts who use relatively little electricity say they need at least a 10% price break before they will leave their utilities for a competitive supply, according to a survey by the state attorney general's office.

The Massachusetts Department of Telecommunications and Energy posted the survey Tuesday as part of an ongoing investigation into ways to better serve residential and small commercial customers in the state who now take utility service.

Among the residential and small commercial and industrial customers surveyed, 62% said they would need a 10% to 29% price break as an impetus to shop for a supplier.

Conducted by Critical Insights of Portland, Maine, the survey of 400 household decision-makers also found that although Massachusetts restructured its electric industry in 1998, only 7% of those surveyed understand retail choice, and only 5% have considered shopping for their electric supply.

Moderate support exists for having the state obtain power on behalf of customers at the best possible price, even if the result is little or no retail competition in Massachusetts. Forty-five percent supported this option, while fewer than one-in-five opposed it. At the same time, however, most of the respondents said competition would help consumers over the long term.

In keeping with various national surveys, the report also found that consumers support renewable energy, even if it costs more. More than half of the respondents (57%) said that they are somewhat or very likely to purchase environmentally clean electricity at a 10% premium, if they could "check off" the option on their utility bills.

Progress Energy Florida to recover $232M

Progress Energy Florida on Tuesday said the Florida Public Service Commission authorized it to recover $231.8 million of the costs the utility incurred responding to four hurricanes in 2004.

The company said the ruling would allow it to add a surcharge to customers' monthly bills of roughly $3.32. Progress said Florida Gov. Jeb Bush recently signed into law a bill that allows utilities to petition the PSC to use securitized bonds to recover major storm-related costs. Progress said it intends to ask the PSC for approval to finance the bonds, allowing the company to reduce the price impact on customers by recovering the storm-related costs over a longer period.

Progress said it expects the regulatory and financing approval process on the bonds to take six to nine months, after which the recovery charge would be recalculated at a lower rate. The company initially asked the PSC to approve $252 million in storm recovery costs.

Pinnacle West sells stake in 570-MW gas plant

Pinnacle West Capital Corp. is to sell its 75% interest in the 570-MW Silverhawk power station to Nevada Power Co. for approximately $208 million, it said Tuesday.

The combined-cycle Silverhawk plant—Pinnacle West's only merchant generating facility—is located 20 miles north of Las Vegas and has been operational since May 2004. Southern Nevada Water Authority owns the remaining 25% of the station.

Closure of the sale is subject to approvals by the Nevada Public Utilities Commission and the Federal Energy Regulatory Commission, which are expected to occur by the end of this fall. Nevada Power is a subsidiary of Sierra Pacific Resources.

Suit against TXU may move with court action

Texas retail electric provider Utility Choice Electric said an appeals court ruling last week has bolstered its claims in a lawsuit against TXU Corp. The suit alleges market manipulation by TXU. But TXU representatives hold an opposite perception: They believe the ruling will allow Utility Choice Electric's claims to be dismissed.

In February, Utility Choice Electric filed a federal lawsuit against TXU and dozens of other ERCOT market participants alleging violations of racketeering laws, mail fraud, wire fraud, antitrust laws and anticompetitive conduct. More than 60 defendants were named, including TXU Corp. and subsidiaries, plus American Electric Power Co. Inc. and subsidiaries, Reliant Energy Inc. and subsidiaries, Centerpoint Energy Inc. and subsidiaries, Texas Genco L.P. and others.

In May, the court approved a defendants' motion to stay the case until the 5th U.S. Court of Appeals rules in a similar case brought against TXU by former energy retailer Texas Commercial Energy in 2003. That case was dismissed in 2004 on the basis of the filed rate doctrine, which limits court involvement in cases where the rate in question has been filed with and approved by a regulatory agency.

The 5th Circuit U.S. Court of Appeals affirmed that case's dismissal in a June 17 ruling.

A TXU spokeswoman said the complete impact of the opinion on Utility Choice Electric's case is unclear.

"It's clear that the filed rate doctrine will block most of UCE's claims," she said.

In a statement Monday, Utility Choice Electric heralded the ruling as a "blow to the principal defense" of TXU, Texas Genco and the other defendants in its lawsuit.

The court's ruling will allow lower courts to determine whether the filed rate doctrine can be applied to Texas' deregulated electricity market, said Utility Choice Electric's lead attorney Rob Potosky.

Texas Commercial Energy never sought equitable relief or criminal sanctions against TXU, Potosky said. Utility Choice Electric is seeking equitable and injunctive relief in its lawsuit, and Potosky said those issues can still be considered and their case can go forward.

The parties involved await word from the U.S. District Court for the Southern District of Texas on a new schedule in the case based on appeals court decision.

Transit costs, environment are hurdles for coal

High transportation costs and the increasing political muscle of environmental groups pose formidable hurdles for the development of new coal generation, said speakers Tuesday at the American Public Power Assn. meeting in Anaheim, Calif.

Transportation costs account for between 75 %-80% of overall costs for delivered coal for Lafayette Utilities System, said Terry Huval, vice president of generation for the public power agency.

"Having competitive rail is a key to get reasonable pricing," said Huval. Mergers and lack of sufficient regulation have allowed rail companies to take unfair advantage of customers, especially captive rail customers," he said. It is important to push for legislation to force these costs down-but that job will not be easy, he said.

"Railroads are the consummate monopoly. They have a very powerful voice in D.C.," said Huval.

Also, the political clout of environmental groups is growing, said Mrg Simon, manager, state government relations for Missouri River Energy Services.

These groups are becoming increasingly savvy in using state laws to fight coal development, said Simon. Missouri River Energy Services is a municipal power agency whose primary generation source is coal.

"The regulatory and political landscape of the environmental aspect of coal-fired generation is inescapably intertwined," said Simon.

It is important to know environmental opponents early in the development of coal projects, said Simon. In particular, knowing as much as possible about environmental groups' priorities and funding sources is crucial, because funding sources often drive environmental concerns, she said.

Also key is awareness of minimum environmental standards, so developers can quantify that they are exceeding these benchmarks, she said.

Simon predicted that Missouri River's 600-MW coal-fired plant in development in South Dakota will be a "referendum on coal." Though South Dakota is considered business-friendly, transmission for the plant is in Minnesota which has a strong environmental voice, she said.

LG&E gets OK for $817M in emission projects

The Kentucky Public Service Commission (PSC) approved 11 clean air compliance projects proposed by Louisville Gas & Electric Co (LG&E) and the Kentucky Utilities Co. (KU), both units of LG&E Energy.

The projects, costing a total of $817 million, will reduce the companies' sulfur dioxide emissions by at least 110,000 tons annually and reflect company efforts to comply with new or revised government regulations, particularly Environmental Protection Agency (EPA) requirements, to reduce air emissions from coal-fired power plants.

LG&E would undertake seven projects at a cost of $57 million. KU's four projects have an estimated cost of about $760 million. Under Kentucky law, the utilities are allowed to recover their environmental compliance costs for coal-fired generating facilities through a surcharge on electric bills.

The projects include construction of scrubbers at KU's 700-MW E.W. Brown plant in Mercer County and 2,000-MW Ghent plant in Carroll County; improvements to ash handling and storage facilities at KU's Brown and Ghent plants and at LG&E's 1,470-MW Mill Creek and 563-MW Cane Run plants; improvements to scrubbers at LG&E's Cane Run and 514-MW Trimble plants; and purchases of emission allowances by both LG&E and KU.

New EPA rules—announced in December 2003 and finalized in March 2005—require companies to achieve substantial further reductions in sulfur dioxide emissions and "tipped the scales definitively in favor" of scrubbers, the PSC said.

The projects will be completed by 2009, the PSC estimated.

Electric utilities in Kentucky are required to pass on to consumers any savings that result from reductions in fuel costs.

The PSC modified or rejected three proposals made by LG&E and KU. The companies were allowed a return on equity of 10.5%, rather than 11%, as they had requested. They were ordered to exclude from their emission allowance inventories any allowances assigned to natural gas-fired generation. Any allowance trading between the utilities will have to reflect the cost of the allowances, rather than the market price.

LG&E has about 391,000 electric customers in and around the Louisville area. KU has 486,000 customers in 77 Kentucky counties.

NiSource strikes outsourcing deal with IBM

NiSource Inc. and IBM said Tuesday they have reached a deal for IBM to provide a broad range of transformation and outsourcing services for the Merrillville, Ind.-based natural gas transmission, storage and distribution company.

The 10-year deal, which will commence July 1, is estimated to be worth $1.6 billion to IBM in service fees and project costs, and is expected to deliver up to $530 million in operating and capital cost savings across NiSource's 15 subsidiaries over the life of the contract.

Under terms of the deal, 572 employees of NiSource are expected to become employees of IBM or its subcontractors. Another 445 positions will be eliminated by NiSource by Dec 31, 2006, throughout the regions where it operates as work is moved to IBM, the company said.

As a result, NiSource will report a $21 million, one-time, non-cash pension expense related to severed employees and employees who accept posts with IBM. IBM will operate a broad range of business support functions for NiSource under the deal, including processes with human resources, finance and accounting, procurement, customer contact, meter-to-cash and information technology. The deal is a key component of NiSource's four-part plan to establish a platform for long-term, sustainable growth.

Calpine prices $650M in convertible notes

Calpine Corp. priced $650 million of contingent convertible notes due 2015 at a rate of 7 3/4% and convertible into cash and into shares of Calpine common stock at a price of $4.00 per share.

The conversion price represents a 29% premium over the New York Stock Exchange closing price of $3.10 per Calpine common share on June 17, said Calpine.

Calpine expects to use the proceeds of the offering, which is expected to close June 23, to redeem in full its HIGH TIDES III preferred securities. Calpine closed on its $736 million HIGH TIDES III offering in September 2004. Calpine said that any remaining proceeds would be used to repurchase a portion of the outstanding principal amount of its 8 1/2% senior unsecured notes due 2011.

Calpine has been on an aggressive debt-reduction program and recently upped the ante on that program with the announcement that it intends to cut is $18 billion debt load by $3 billion by the end of the year.

Goldman, Sachs & Co. is the sole manager of the convertible notes offering.

Senate approves Hagel provision … from page 1

Sen. Jeff Bingaman, D-N.M., the committee's ranking member. "We haven't decided," said Bingaman Tuesday afternoon when asked if he would offer his climate change amendment.

Senate Majority Leader Bill Frist, R-Tenn., said, following lunch with President Bush, that he was hopeful the Senate would give final approval to the energy bill by Friday. The measure contains an $18 billion tax title with $4 billion in revenue raisers and $14 billion in incentives for energy production—including an extension of renewable energy tax credits through 2008, a 20% investment tax credit for low-emission coal facilities and tax credit bonds for public power to invest in low-emission coal and renewable energy projects.

The Hagel-Pryor amendment would financially promote technologies to reduce greenhouse gas intensity and their deployment here and abroad. The amendment authorizes that funds of "such sums as necessary" be used for direct loans, loan guarantees, standby default coverage and standby interest coverage for projects to reduce greenhouse gas emissions per pound of production.

The amendment also sets up a Climate Coordinating Committee and board to approve and fund projects, and directs the Energy secretary to lead an inter-agency process to implement a national climate change policy. It gives new authority to the secretary of state to coordinate ways to aid developing countries in such technology projects and directs the U.S. Trade Representative to negotiate to lift barriers to exporting such technologies.

The McCain-Lieberman amendment would mandate that the electric power sector and other industries that represent 85% of U.S. carbon dioxide emissions hold their CO2 emissions to 2000 levels by 2010. It would set up an emissions trading mechanism that would require entities to give the Environmental Protection Agency one tradable allowance for each metric ton of greenhouse gases emitted.

Some supporters of the Hagel-Pryor amendment urged their colleagues to reject McCain-Lieberman. Sen. George Voinovich, R-Ohio, said the proposed carbon cap would "kill coal" and force industry to switch to more expensive natural gas at a cost of thousands of jobs.

Bingaman's amendment would set up an economywide cap-and-trade mechanism to help industry reduce greenhouse intensity by 2.4% a year beginning in 2010. The amendment, rooted in recommendations from the stakeholder-based National Commission on Energy Policy, also would offer industry a "safety valve price" on emission credits of $7 per metric ton of CO2. That price would increase each year by 5%.

Domenici's staff last week said there was a "very real possibility" that he would co-sponsor Bingaman's amendment, but Monday night the chairman said he did not believe the provision was ripe for adding to the energy bill this week.

In a statement, Domenici said that he remained "impressed by the NCEP recommendations. They are an important step toward controlling carbon emissions, but do so with a much smaller impact on the economy than the Kyoto Agreement or McCain/Lieberman.

"However, as we began developing details of how NCEP would be implemented, particularly how credits would be allocated, it became clear that we do not have something ready to be added to the energy bill. This is just too tough to do quickly," said Domenici. But the senator said he would continue to work with Bingaman and perhaps hold hearings on the issue.

Hydro One denies near-blackout … from page 1

According to most accounts, a crew was performing scheduled circuit-breaker maintenance on the utility's 500-kV system near Milton, Ont. The operator at the Grid Control Centre had mistakenly left the breaker in its fully grounded "test" position, and when the operator threw a switch to resume the flow of electricity, it was diverted into the ground, causing a short circuit.

Protection systems instantly stopped sending power to the grounded line. Two nearby 500-kV lines also tripped off line, for reasons that are still being investigated, and frequency oscillations or "rings" echoed through parts of the Northeast Power Coordinating Council (NPCC) region for the following 12 to 15 seconds.

"I think that the origin of this rumor that [the May 27 blip] was an incident on the scale of the August 2003 blackout goes back to the group of striking employees, who have been repeating that message again and again," Gregg said. "It is simply untrue."

Gregg was referring to some members of Local 160 of the International Federation of Professional and Technical Engineers (IFPTE) who have been on strike against Hydro One since early this month, and who told the *Washington Post* that the May 27 incident seriously threatened the integrity of the grid and almost caused a system wide collapse.

Andy Banks, director of organization at the IFPTE, on Tuesday strongly denied Hydro One's assertion that the engineers' concern was tied to their ongoing strike, and said that the only reason the May 27 blip did not cause a major blackout was that the weather was mild and system demand was only moderate.

Banks also said that the blip indicates that the computerized relay systems installed in response to the August 2003 blackout did not work as they were designed to, and that IFPTE engineers believe that so-called "Delta P relays" should be installed at the three interconnection points between the Ontario and U.S. grid "to trip the circuits open" and isolate the Ontario grid if major imbalances are detected. That, he said, would help prevent a repeat of the blackout.

Paul Murphy, chief operating officer at Ontario's Independent Electricity System Operator (IESO), which oversees the provincial grid, said that while the May 27 incident is "serious" and "warrants an investigation," the grid's protective systems quickly isolated the problem.

"There is nothing to suggest that there would have been additional cascading" or a repeat of the August 2003 blackout, Murphy said. "That situation was very, very different. It developed over the course of an afternoon," and involved, among other things, overloaded transmission lines, cascade tripping, and computer-operation problems, "none of which were present here" on May 27.

Claudio Canizares, professor of power systems at the University of Waterloo in Ontario, said that the May 27 incident presents "a good opportunity" for grid experts to identify what he called "hidden problems" within the high-voltage system and correct them.

Gregg said that his utility has contracted with an unidentified independent third party to investigate the blip incident. The investigator's findings will be presented to the NPCC by early next month. An NPCC spokesman said that his group "is in the process of conducting a thorough review" of its own and will release its initial findings by mid-July.

FERC upholds sharing costs ... from page 1

deviated from their day-ahead bids, as well as virtual traders making paper trades that were not backed by actual supply or load.

In arguing against the new tariff, PSEG said that spreading out costs among market participants artificially lowers the costs and does not create true price signals. It also disputed FERC's findings the change was necessary to keep virtual traders in the market.

But FERC maintained the old tariff was driving up virtual trading costs and therefore decreasing virtual trading activity. For example, FERC said the Boston area market had experienced congestion in the day-ahead market, but not in the real-time market, a price disparity that may have been eliminated with more virtual trading.

The charges have been particularly high in southwestern Connecticut and the Boston area, where capacity is constrained, and the ISO-NE must often designate high cost generators as must-run units. ISO-NE has cited costs averaging $8.50 MWh in Connecticut and $5.50 MWh in Boston.

The March 1 tariff change did not spread Connecticut or Boston costs to other regions in New England. Those areas continue to pay their own reliability costs; however, the costs are spread among more market participants in each of the regions. As a result, a small group of utilities, generators or virtual traders will not bear the burden of the cost, as they did under the old tariff. FERC was particularly concerned that overburdened virtual traders would flee the congested Boston area.

EEI names Morris chairman ... from page 1

as part of the Bush administration's stalled "Clear Skies" bill.

He also opposes a renewable portfolio standard. Last week, the Senate voted 52-48 for a 10% renewable energy mandate for electric utilities by 2020. "Let's be realistic about what we can do and what we may be legislated to do," Morris said. "The numbers are frightening. It would take 200,000 MW to hit the renewable standards put upon us."

In the coming year, Morris hopes for clarity over whether federal or state energy regulators have jurisdiction over investment in new transmission lines. "Much has not been done in the past half-decade in capital investment," Morris said. "None of us knows exactly what the plan is for building out," he said.

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